example, adopt the range of reasonableness for cable programming service suggested in prior comments, but deny an operator the benefit of that range if it moved channels from basic to cable programming service tiers. It could, for example, also require operators who elect cost of service with respect to the cable programming tier to demonstrate that the overall return for the basic and cable programming tiers is reasonable.

B. Productivity Offset

In adopting the 1992 Cable Act, Congress made it clear that its concerns were the increase in cable rates above inflation. By limiting cable rate increases to changes in GNP-PI, plus appropriate externals, the Commission will have fully satisfied the intent of Congress.

There simply is no factual basis for applying a productivity offset to the cable television industry. The telephone company productivity offset was developed against a record of long-term decline in telephone rates in real terms. No similar record has been credited to cable. That decline in telephone rates was a product in part of technological changes (the dramatic savings possible in upgrading switches, for example). It is also facilitated by the ability of LECs to trim their workforce. Cable operators, on the other hand, have fewer than half as many employees per household as LECs have employees per access line. With customer service standards increasing, there is little likelihood of employee cuts.

When the Commission established the factual predicates for telephone productivity offset, it assembled a substantial record of analyses and reports covering 60 years of telephone company statistics including detailed decade-long studies of the growth of interstate and intrastate use and the growth of minutes which were available through statistics assembled by the Common Carrier Bureau and unique to the telephone industry that measures usage of its plant and equipment.[78/] None of that evidence is available with respect to the cable industry.

Nor is there a sound policy basis for applying a productivity offset. Use of an artificial productivity offset would effectively eliminate any inflation adjustment at the very time that cable operators must upgrade and expand just to stay even and poised for competition. Given the 10% across-the-board cut imposed by benchmarks, cable operators have more than enough incentive to gain efficiencies. The Commission should decline to impose any productivity adjustment.

C. Averaging

The cable industry is integrated. Fiber interconnects headends, centralized customer service and repair facilities serve large regions, management groups take responsibilities for

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78/ See generally Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd. 6786, 6793-6801 (1990).

multistate regions and report costs in accounting centers which transcend system and state lines. Just as a telephone study area is always statewide, and an RBOC is permitted to average access across state lines, cable should be granted the same administrative convenience, and be permitted (but not required) to average costs across reasonable asset groups. Cost averaging cannot be limited to community units with the same services and franchise fees, and certainly not conditioned on consent of the franchising authority (as with Form 393). Cost of service studies will be complex enough without multiplying their number and introducing artificial allocations. Costs may eventually be allocated by weighted subscriber/channel or other reasonable allocators to account for differences in services. But they should be permitted to be averaged at higher levels to ease the administrative burden of regulation.

D. <u>Cost Studies</u>

The Commission has delegated authority to the Mass Media Bureau to investigate cable costs. We recommend that the Commission work with a delegation appointed by NCTA to facilitate this inquiry, in order to avoid unnecessary burdens and to minimize any errors in reporting or data compilation. Joint Commenters are also agreeable to sharing representative cost information with Commission staff.

E. Procedure

At various points during this proceeding the Commission has suggested a variety of limits on the frequency of rate adjustments. The initial Report & Order suggests that rates may not be increased more often than once every year, though it leaves unclear the starting point from which the year is to be measured. The starting point should be the last increase unless new services are being added. The instructions to the original Form 393 suggest that the year be measured from the date the FCC reduces a rate for a cable programming service tier, but says nothing about immaterial adjustments (as may be incident to an accounting dispute) or for basic service rates. Elsewhere, the Commission suggests that a basic service case must be concluded before the next one may begin. Now, the present NPRM suggest that cost of service cases may not be made before 12 months from the end of a cost of service case. This is impractical given that franchising authorities have six months to review rate cases. Adjustments should then become retroactive to the time of application.

The industry is overdue for a clarification which will recognize the practicalities of this difficult transition to new regulations. The Commission has established no final benchmark rules. It has adopted no regulations defining the content of a cost of service case. The odds are high that the first year's worth of cost of service cases -- which are supposed to be conducted under "general" principles -- will be appealed to the FCC and to reviewing courts. Operators have been faced with an unexpected freeze, which has, by the Commission's calculation, postponed over $20 million in planned 1993 rate increases. Many operators have systems with genuine need for prompt relief under cost of service principles. However, the Commission's regulations forbid it. Rates adjusted on September 1 cannot be increased above April levels. If the pendency of rate cases concerning "initial" rates remain contested and appealed, an operator cannot take timely, defensible increases if cost-of-service must be postponed until the year after the conclusion of the initial rate case. Operators should be permitted to advance a case for increases, based on cost of service principles, by submitting a rate increase during the pendency of an initial rate case. If the operator's cost showing justifies a higher rate, and the freeze has been lifted by November 15, there is no reason to deny a cost-of-service increase as part of the initial rate case. Conducting the "initial" rate case and testing the rate increase simultaneously economizes on administrative time and expense and avoids confiscation.

Likewise, even after the conclusion of the initial rate cases, there is no reason to impose an artificial limit on the frequency of cost of service submissions. Many operators incur unexpected increase in expenses which change expenses "markedly" within a single year.[79/] Thus, there is no reason to prohibit an operator from commencing a rate case in order to recover costs which would justify that rate increase.

The Commission has suggested (NPRM ¶ 18) that there might be a special threshold showing before an operator could use cost of service to justify a rate increase, rather than to justify current rates. This is administratively inefficient and arbitrary. If cost of service demonstrates a revenue deficiency, perpetuating that deficiency would be a taking.

VI. STREAMLINED ALTERNATIVES

In the NPRM, the Commission requested that commenters consider streamlining techniques to make cost of service regulation easier to implement. Given the detail, complexity and time consuming nature of cost of service regulation, Joint Commenters applaud the Commission's foresight in supporting the use of streamlining. Streamlining can also provide a mechanism to accomplish reasonable "end results," to pass the constitutional test which regulation must pass, and balance the interests of ratepayers and investors, while still giving proper effect to the Cable Act of 1992.

79/ Pole rate increases, natural disasters (floods, hurricanes and the like), costs of compliance with franchise ordinances all vary without regard to the Commission's implementation of cost-of-service rules. Similarly, due to the uneven investment in major capital projects, such as re-builds, arbitrarily limiting cost-of-service showings will only delay improvements.

It must be remembered that the theoretical departure to this discussion is that a detailed cost of service showing by thousands of cable operators would be costly, wasteful and unproductive, as well as likely show that current rates, even before reductions due to the benchmark, are not high enough. While the cost of service showing would undoubtedly include recovery of all goodwill or intangible assets, and that is a source of controversy and consternation, it is not the goal of regulation to force cable operators out of business or into such financial distress that enhanced services become an impossible dream, instead of an imminent reality. Moreover, constitutional limitations would not permit such a result, but that is what the benchmark will do to many.

To combat that undesirable result, streamlining can be accomplished by simply taking the benchmark rates and adjusting them for the reasonable components of the acquisition adjustment that are clearly not related under any circumstance to monopoly profits. Subscriber growth, franchise lists, subscriber lists, existing work force, are all components of goodwill unrelated to monopoly profits, should be included in rate base, and can be reviewed in the context of a streamlined proceeding. As an example of the streamlining, we offer two convenient "benchmark plus" approaches to recognizing additional cost items.

A. Benchmark-Plus "Subscriber Growth"

Cable operators should be able to present information detailing the components of the acquisition adjustment that are unrelated to monopoly profits, including the proper allocation of those components to the different tiers. Cable operators also should be permitted to adjust the benchmark rates for those that the Commission, without the benefit of hindsight review, agrees are reasonable and recoverable. The following chart depicts the calculation of one component of acquisition costs allocated between regulated and nonregulated service and between tiers -- subscriber growth. In a streamlined setting, the FCC could review the reasonableness of these calculations and adjust the benchmark rates accordingly. If the calculation produces rates above current rate levels, the streamlined process should result solely in maintaining the present rates.

Benchmark Plus - Example
Intangible Assets - Subscriber Growth Value
Company X

Current rate at 9/30/93	0.500	
Maximum permitted initial rate	0.450	

Difference	0.050	
Measurable subscriber growth value		$40,000,000 1/
Rate of Return		11.25% 2/

Invested Capital		$ 4,500,000
Federal income tax (34%)		51.52% 2/

Tax Provision		$ 2,318,400
Revenue Requirement		$ 6,818,400
Portion allocated to this system (200,000/500,000 subscribers)		$ 2,727,360 3/
Portion allocated to regulated business on channel factor basis - 81%		$ 2,209,162 4/
Monthly amount		$ 184,097
Number of regulated channels		30
Number of Subscribers		200,000
Channel Factor (Subs * Channels)		6,000,000

Rate add-on per channel		0.031
		===========
New benchmark plus add-on rate		0.481 5/
		===========

STREAMLINED
"BENCHMARK PLUS"
SUBSCRIBER GROWTH VALUE
NOTES

1. **Measurable Subscriber Growth Value** - An assessment of growth in basic subscribers that could be attained by the acquiring firm would be made (at the time of purchase) in light of the current penetration levels, an evaluation of current management, the amount of confidence in the new management, marketing skills, etc. For purposes of this hypothetical system, growth was expected to be 7% annually, declining to approximately 3% over the first ten years of new ownership. Given an initial base of basic subscribers of approximately 500,000, this translates into an average increase in subscribers of approximately 30,000 over the first ten years of operations (500,000 * .06). Assuming an average rate of $20/month, "growth value" is approximately $7.2 million per year. Discounting $7.2 million per year at 10% for a ten year period results in approximately $44 million in "growth value" on a present value basis, rounded to $40 million.

2. **Rate of Return/Federal Income Tax** - For ease of presentation, the rate of return and income tax methodology are borrowed from the FCC's equipment basket calculations.

3. **Portion Allocated to This System** - This assumes that the hypothetical system has 200,000 subscribers and that its parent MSO has total subscribers of 500,000. This also assumes that any intangible asset is allocated (or "pushed down") to the system based on the number of subscribers at the time of acquisition.

4. **Allocation to Regulated Business** - The above calculation considered only growth in basic subscribers. However, a further allocation conservatively states the impact on basic. The channel factor allocator works as follows:

	Channels		Subscribers	Factor	Percent
Regulated	30	x	200,000	6,000,000	81%
Unregulated	8	x	175,000	1,400,000	19%
Total	38		-------	7,400,000	100%

5. **Rate Add-On Per Channel** - The portion allocated to regulated business ($2,209,162) is translated into an amount per channel, per customer, per month to equal the rate add-on per month (i.e., $2,209,162/12 = $184,097; $184,097/30 channels/200,000 customers = $.031 per channel, per customer, per month).

B. <u>Benchmark-Plus "Re-Build"</u>

Another appropriate component of a benchmark-plus add on that should be included in a streamlining vehicle is rebuild expenses. One of the accomplishments expected to occur through the transitional period of regulation is continued enhancement of basic and cable programming services. Technological advancements should continue to be carried out by cable systems and the FCC has properly refused to jeopardize those achievements. To that end, cable operators should be permitted to file with the Commission their anticipated expenditures incurred for rebuilds and enhanced services, which total should be added to benchmark rates without undergoing the entire cost of service process. Of course the Commission would, in the streamlined setting, review the reasonableness and necessity of the expenditures the cable operator asserts should be included in rate base.

Benchmark Plus - Example
Upgrades/Capital Improvements
Company X

Current rate at 9/30/93	0.500	
Maximum permitted initial rate	0.450	

Difference	0.050	
Projected annual capital improvements due to upgrade, new equip purchase		$20,000,000
Rate of Return		11.25% 1/

Invested Capital		$ 2,250,000
Federal income tax (34%)		51.52% 1/

Tax Provision		$ 1,159,200
Revenue Requirement		$ 3,409,200
Portion allocated to regulated business on a channel factor basis-81%		$ 2,761,452 2/
Monthly amount		$ 230,121
Number of regulated channels		30
Number of Subscribers		200,000
Channel Factor (Subs * Channels)		6,000,000
Rate add-on per channel		0.038
		===========
New benchmark plus add-on rate		0.480 3/
		===========

STREAMLINED
"BENCHMARK PLUS"
UPGRADES/CAPITAL IMPROVEMENTS
NOTES

1. **Rate of Return/Federal Income Tax** - For ease of presentation, the rate of return and income tax methodology are borrowed from the FCC's equipment basket calculations.

2. **Allocation to Regulated Business** - The above calculation considered capital upgrades for the entire system which will be used by other than just basic subscribers. The following is the assumed channel factor allocator to state the impact on basic:

	Channels	Subscribers	Factor	Percent
Regulated	30	200,000	6,000,000	81%
Unregulated	8	175,000	1,400,000	19%
Total	38	-------	7,400,000	100%

3. **Rate Add-On Per Channel** - The portion allocated to regulated business ($2,761,452) is translated into an amount per channel, per customer, per month to equal the rate add-on per month (i.e., $2,761,452/12 = $230,121; $230,121/30 channels/200,000 customers = $.038 per channel, per customer, per month).

The two streamlining techniques discussed above, "benchmark add-ons", are reasonable methodologies to abridge the cost of service process, permit cable operators a more realistic opportunity to maintain their financial viability, and, frankly, would not come close to the results of detailed cost of service studies, which would otherwise be filed by cable operators. They are meritorious and should be considered by the FCC as appropriate rate making tools.

VII. CONCLUSION

Cable television has been transformed by legislative fiat into a rate and service regulated industry. The 1992 Cable Act, if strictly interpreted, could require cable television operators to contend immediately with a full array of regulatory requirements developed over the past 100 years in regulating public utilities. The Commission, therefore, is confronted with the same issues with respect to newly regulated industries that other regulatory agencies began facing at the beginning of this century. Cable's transformation from an unregulated to a rate regulated entity must allow for the reasonable balancing of consumer and investor interests. Arbitrary disallowances of various ratebase items and restricted rates of return will ultimately disserve the policies of the Cable Act and this Commission's own regulatory initiatives.

Commission must allow for a period of transitioning, and recognize the substantial value intangible assets bear with respect to determining an appropriate ratebase. The ultimate rate of return must reflect the inherent riskiness of the cable business versus the more stable, diversified and mature companies providing regulated telecommunications services. With appropriate policies developed to encourage cable's contribution to the advanced telecommunications infrastructure, rate regulation's infancy and maturity can be best adopted to promote growth and vitality.

Respectfully submitted,

By: ______________________

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<u>Economic Consultant</u>

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Utility Services Group
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August 25, 1993

EXHIBIT A

EXHIBIT A

KBLCOM INCORPORATED
CABLESYSTEM HISTORICAL DATA
THROUGH SEPTEMBER, 1993

LAREDO, TEXAS CABLESYSTEM

The Laredo system was originally franchised in 1957. UA-Columbia acquired the system in 1959. In November, 1981, the Rogers Cable Group acquired a 51% indirect ownership interest. On August 21, 1983 Rogers acquired the remaining 49% ownership interest at which time it acquired full operational control of the system.

In March 1989 KBLCOM Incorporated acquired the system assets from the Rogers Cable Group.

SAN ANTONIO, TEXAS CABLESYSTEM

The San Antonio system was originally franchised in 1978 by UA-Columbia. In November, 1981, the Rogers Cable Group acquired a 51% ownership interest from UA-Columbia. On August 31, 1983, the Rogers Cable Group acquired the remaining 49% ownership interest and assumed full operational control of the system.

On November 30, 1986, Rogers Cablesystems of Texas, Inc. was merged into Rogers Cablesystems of the Southwest, Inc.

On October 31, 1986, the Rogers Cablesystems of West Texas, Inc. and Rogers Cablesystems of Alamogordo, Inc. exchanged their San Angelo, Texas and Alamogordo, New Mexico cablesystem assets, respectively, for cablesystem assets serving the unincorporated areas of Bexar County. On October 31, 1989, Rogers Cablesystems of West Texas, Inc. and Rogers Cablesystems of Alamogordo, Inc. merged into Rogers Cablesystems of the Southwest, Inc.

In March, 1989, KBLCOM Incorporated acquired the system assets of Rogers Calesystems of the Southwest, Inc., Rogers Calesystems of West Texas, Inc., and Rogers Cablesytems of Alamogordo, Inc. from the Rogers Cable Group.

MINNEAPOLIS, MINNESOTA CABLESYSTEM

A. City of Minneapolis Cablesystem

The City of Minneapolis system was originally franchised in 1982 by Rogers Cablesystems of Minneapolis Limited Partnership. Rogers Cablesystems of Minneapolis, Inc. held an initial 10.71% interest in the partnership, which interest increased to 50% if certain profit and cash distribution levels were attained. The remaining partnership interest was held by outside limited parties.

During June and August, 1988, Rogers Cablesystems of Minneapolis, Inc. purchased an 81.14% interest in the partnership from outside limited partners (total partnership interest of 91.85%).

In March, 1989, KBLCOM Incorporated acquired the cablesystem assets.

In June, 1989, Rogers Cable TV, Inc., a wholly-owned subsidiary of KBLCOM Incorporated, purchased 1.25% interest in the partnership from Rogers Cablesystems of Minneapolis, Inc. (total partnership interest of 91.85%). At various times from August 1990 - August 1992 KBLCOM acquired additional ownership interests in the partnership such that its current ownership is at 97.36%.

B. Suburban Minneapolis Cablesystem

The cablesystem serving suburban Minneapolis, including the contiguous cities of Eden Prairie, Richfield, Edina, Hopkins and Minnetonka, Minnesota, was originally franchised in 1981 by Minnesota Cablesystems-Southwest, a limited partnership. Minnesota Cablesystems, Inc., a wholly-owned subsidiary of the Rogers Cable Group, which later changed its name to Rogers Cablesystems, held an initial 82.18% interest in the partnership; the remaining partnership interest was held by outside limited parties.

At various times from August 22, 1986 - August 31, 1988, additional ownership interests were purchased until the partnership was wholly owned by the Rogers Cable Group.

C. Suburban Minneapolis Cablesystem

In March, 1989, KBLCOM Incorporated acquired the system assets, and Rogers Cablesystems of the Southwest, Inc., from the Rogers Cable Group.

PORTLAND, OREGON CABLESYSTEM

A. City of Portland Cablesystem

The City of Portland system was originally franchised in 1981 by Cablesystems Pacific, a limited partnership. Cablesystems Investment, Inc., a wholly-owned subsidiary of the Rogers Cable Group, held an initial 66.68% interest in the partnership. The remaining partnership interest was held by outside limited parties.

At various times subsequent to the original franchise date, different named subsidiaries of Rogers Cable Group bought, sold and transferred ownership interests until the Rogers Cable Group owned 100% by August 31, 1988.

In March, 1989, KBLCOM Incorporated acquired the system assets, Rogers-Portland Cablesystems Limited Partnership, and Rogers Cablesystems of the Southwest, Inc. and Rogers Cablesystems of Multnomah, Inc. (including their interests in the partnership), from the Rogers Cable Group.

B. Suburban Portland Cablesystem

The cablesystem serving the Multnomah County, Oregon, area contiguous to Portland, Oregon, was originally franchised in 1983 by Rogers-Multnomah Cablesystems Limited Partnership. Rogers Cablesystems of Multnomah, Inc., a wholly-owned subsidiary of the Rogers Cable Group, held an initial 62.60% interest in the partnership; the remaining partnership interest was held by outside limited parties.

During the fiscal year ended August 31, 1988, Rogers Cablesystems of Multnomah, Inc. purchased a 25.10% interest in the partnership from outside limited partners (total partnership interest of 87.70%).

In March, 1989, KBLCOM Incorporated acquired the system assets, Rogers-Multnomah Cablesystems Limited Partnership, and Rogers Cablesystems of the Multnomah, Inc. (including its partnership interest) from the Rogers Cable Group.

During June, 1989, Rogers Cablesystems of Multnomah, Inc. transferred a 1.00% interest in the partnership to Rogers Cable TV, Inc., a wholly-owned subsidiary of KBLCOM Incorporated, and acquired the remaining 12.30% interest in the partnership from outside limited partners. The partnership, as of June 30, 1989, was wholly-owned by the KBLCOM Incorporated and Subsidiaries.

ORANGE COUNTY, CALIFORNIA CABLESYSTEM

A. Dickinson Pacific Cablesystems

The cablesystems serving the cities of Huntington Beach, Westminster and Fountain Valley, California were originally franchised in October, 1979, which franchises were transferred to Dickinson Pacific Cablesystems in November, 1979. Dickinson Pacific Cablesystems also holds franchises for the cities of Stanton and Midway City, California, which were awarded in 1981 and 1982, respectively, and franchises for unincorporated areas of Orange County, California, contiguous to the aforementioned municipalities.

California Cablesystems, Inc., a wholly-owned subsidiary of the Rogers Cable Group, held an initial 50.00% interest in the partnership; the remaining partnership interest was held by an outside party.

From August 1983 - March 1988 various subsidiaries of Rogers Cable Group bought and sold and transferred ownership interests in the partnership until, at March 30, 1988 it was wholly owned by Rogers.

In March, 1989, KBLCOM Incorporated acquired the system assets, the Dickinson Pacific Cablesystems partnership, Rogers Cablesystems of the Southwest, Inc. and Rogers Cable TV, Inc. (including their partnership interests) from the Rogers Cable Group.

B. Orange County, California Cablesystems
(other than Dickinson Pacific Cablesystems)

The cablesystems serving the cities of Los Alamitos and Garden Grove, California were originally franchised in May, 1982 and August, 1982, respectively, by California Cablesystems, Inc., a wholly-owned subsidiary of the Rogers Cable Group. California Cablesystems, Inc. also holds franchises for unincorporated areas of Orange County, California, contiguous to the aforementioned cities.

During the fiscal year ended August 31, 1984, California Cablesystems, Inc. changed its name to Rogers Cablesystems of California, Inc.

In July, 1987, Rogers Cablesystems of California, Inc. was merged into Rogers Cablesystems of the Southwest, Inc., a wholly-owned subsidiary of the Rogers Cable Group. From July, 1987 through the present time, the Los Alamitos and Garden Grove, et al, cablesystems have operated as the California Division of KBL Cablesystems of the Southwest, Inc. (fka Rogers Cablesystems of the Southwest, Inc.).

In March, 1989, KBLCOM Incorporated acquired the system assets, and Rogers Cablesystems of the Southwest, Inc., from the Rogers Cable Group.

KBLCOM INCORPORATED
and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEET
BALANCES AT 6/30/93
(Thousands of Dollars)
(Unaudited)

ASSETS	JUNE 30, 1993
Current Assets	$38,649
Property, Plant and Equipment	343,329
Accumulated Depreciation	(133,938)
Net Property, Plant and Equipment	$209,391
Total Investments	113,882
Oher Assets:	
Franchise	555,541
Goodwill	447,612
Other Assets	48,317
Total Other Assets	$1,051,470
Total Assets	$1,413,392
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current Liabilities	$150,890
Long-Term Liabilities	562,484
Deferred Income Taxes Payable	297,712
Unamortized ITC	3,792
Total Liabilities	$1,014,877
Preferred Stock	250,000
Stockholder's Equity:	
Common Stock	1
Additional Paid-in Capital	718,042
Retained Earnings	(569,528)
Total Stockholder's Equity	$148,515
Total Liabilities and Stockholder's Equity	$1,413,392

KBLCOM INCORPORATED
CONDENSED STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1993	1992 (Restated)	1993	1992 (Restated)	1993	1992 (Restated)
Revenues:						
Basic services	$42,336	$39,509	$83,722	$78,429	$163,394	$153,374
Pay (Premium) services	9,683	9,871	19,434	19,791	38,897	40,639
Pay per view	3,239	2,968	5,992	5,715	10,672	10,094
Advertising	4,376	4,092	7,753	7,015	16,149	13,689
Other	3,396	3,387	6,860	6,212	14,247	11,855
Total	63,030	59,827	123,761	117,162	243,359	229,651
Cost of Services and System Operating Expenses	37,376	35,926	74,674	70,892	145,525	140,609
Gross Margin	25,654	23,901	49,087	46,270	97,834	89,042
Depreciation and amortization	19,438	18,228	38,697	36,516	77,803	71,676
Interest expense	11,983	17,375	27,626	36,780	60,762	79,681
Other expense	821	1,287	986	2,352	2,434	4,348
Equity in income of cable television partnerships	(7,987)	(5,334)	(15,009)	(9,942)	(29,938)	(16,947)
Income taxes	1,526	(1,963)	973	(5,411)	(1,817)	(4,303)
Net Loss Before Preferred Dividends to Parent	($127)	($5,692)	($4,186)	($14,025)	($11,410)	($45,413)

Reference is made to the Notes to the Consolidated Financial Statements contained in the Annual Report of Houston Industries Incorporated.

The information furnished is given in response to your request for information concerning the Company and not in connection with any sale or offer for sale of, or solicitation of an offer to buy, any securities.

EXHIBIT B

EXHIBIT B

HISTORY AND SELECTED FINANCIAL DATA OF RIFKIN ACQUISITION PARTNERS, L.P.

1. Formation

This "Rifkin" company was formed in May 1989 when it acquired the operations of two smaller cable companies and combined them. The new company was financed by equity contributions of $42.5 million from investors and borrowing of approximately $131 million. The largest investor in the company was responsible for negotiation of the purchase terms and approval of the financing and was a third party investor, not previously affiliated with any Rifkin interest and not affiliated in any way with the sellers. The primary seller was a Providence, Rhode Island based investor with no continuing interest in the new company. The company now operates cable television systems in four states serving over 112,000 households and employing some 166 people.

The acquisition was primarily financed by debt. Debt financing was provided by a bank group led by Chase and an insurance company group led by John Hancock. The transaction was in every sense a "fair market" purchase under scrutiny of sellers, buyers, investment bankers (Paine Webber and Morgan Stanley were parties to the transaction), and lenders to the new entity. Affiliates of Monroe M. Rifkin became the general partner of the new company and the manager of the company's day-to-day operations, and Mr. Rifkin and his family and his key employees became minority investors in the company.